MOODY'S
INVESTORS SERVICE

Rating Update: Moody's upgrades Jewish Federation of Metropolitan Chicago (IL) to Aa3; outlook stable

Global Credit Research - 31 Jul 2015

Issuer rating; no underlying debt rating

JEWISH FEDERATION OF METROPOLITAN CHICAGO, IL
Not-for-Profit Organizations--Foundations, Museums, Other (excludes Health Care & Higher Education)
IL

NEW YORK, July 31, 2015 --Moody's Investors Service upgrades the Jewish Federation of Metropolitan Chicago IL's (JFMC or Federation) issuer rating to Aa3 from A1. The outlook is stable.

SUMMARY RATING RATIONALE

The upgrade to Aa3 is supported by JFMC's material growth in cash and investments driven in part from acquiring the assets of two large foundations. The Aa3 rating further reflects a history of robust philanthropic support bolstered by its affiliation with the Jewish United Fund, exceptional liquidity, and strong financial resource coverage of debt and operations.

Offsetting challenges include high reliance on gift support and endowment distribution, a complex debt structure largely of guaranteed obligations, and elevated debt relative to revenue.

OUTLOOK

The stable outlook reflects the expectation that JFMC will maintain a strong financial resource cushion to debt and expenses, strong fundraising and prudent management of its debt guarantee program.

WHAT COULD MAKE THE RATING GO UP

-Substantial growth in liquid financial resources relative to debt

-Sustained strong philanthropic support

WHAT COULD MAKE THE RATING GO DOWN

-Material decline in financial resources, unrestricted liquidity, or gift revenue

-Significant increase in financial leverage

STRENGTHS

-Financial resources of more than $1.3 billion, much highly liquid, provide a strong cushion of debt and operations

-Flexible operations with appropriations, distributions and grants representing 82% of expenses

-Strong donor recognition through the Jewish United Fund and community support in the Chicago metropolitan area drive robust fundraising

-Effective use of policies and procedures governing JFMC's debt-guarantee process

CHALLENGES

-Vulnerability to external market conditions given a high dependence on gifts and endowment distribution at a combined 90% of Moody's adjusted operating revenue

-Complex debt structure for guaranteed obligations of affiliates necessitates careful oversight and monitoring

-Exposure to operational risks of guaranteeing debt for financially weaker organizations

RECENT DEVELOPMENTS

Incorporated into DETAILED RATING RATIONALE.

DETAILED RATING RATIONALE

MARKET POSITION: SOCIAL SERVICE JEWISH PHILANTHROPY GARNERS STRONG DONOR AND COMMUNITY SUPPORT

JFMC, a well-established Jewish philanthropy in the Chicago area, enjoys strong philanthropic support. The Federation allocates funds to national and international charitable, educational, social welfare, healthcare, and other human service organizations. This broad platform to draw donors positions it for ongoing fundraising success. For FY 2014, total gift revenue exceeded $154 million for the second year consecutive year, primarily due to large gifts to and distributions from its donor advised fund program. For the past five years, annual gift revenue is still strong, averaging $111 million.

OPERATING PERFORMANCE, BALANCE SHEET, AND CAPITAL PLANS: STRONG GIFT REVENUE, INVESTMENT RETURNS AND ADDITION OF SUPPORT ORGANIZATIONS DRIVE BALANCE SHEET GROWTH

Management's philosophy of maintaining balanced operations is an important credit factor in the upgrade as it demonstrates prudent stewardship of its large financial resource base. JFMC consistently generates close to breakeven operating margins when solely analyzing core operations, which balances its distributions/appropriations (expenses) with gift revenue.

JFMC's total operations, when including all unrestricted revenues, are more volatile because of fluctuations in gift revenue and donor advised fund distributions. Moody's operating metrics include all unrestricted operating revenues and expenses and substitute JFMC's endowment income distribution with a Moody's-calculated 5% spend rate of the prior three-year average of adjusted cash and investments. The operating cash flow margin was 27% for FY 2014, providing average annual debt service coverage of 59.6 times on modest debt service averaging just $637,000 over FY 2012-FY 2014.

Gift revenue constitutes JFMC's largest revenue stream (approximately 73% of total operating revenue in FY 2014) and was record levels in recent years. JUF's annual fundraising campaign is a key determinant in the budget process, with its annual campaign raising $82.1 million in 2014. The other key revenue source is endowment distribution, comprising 22% of revenue.

Federation has a large pool of well-managed and diversified investments. At FYE 2014, $855 million was invested in the Federation's Pooled Endowment Portfolio (PEP), which had a strong fiscal year return of 16.9%. The nine-month fiscal year-to-date return was 0.8% at March 31, 2015. The remaining cash and investments are invested by other managers, all monitored by JFMC and managed similarly to the PEP, with similar performance history.

Preservation and growth of JFMC's financial reserves are important to maintain the Aa3 rating. Fiscal 2014 expendable financial resources of $1.13 billion (excludes unitholders and non-controlling interest investors, which could withdraw their investments according to a redemption schedule) nearly doubled since FY 2012, providing a strong cushion to pro-forma debt and operations by 3.5 times and 8.7 times, respectively. The growth was largely driven by acquisition of two different support organizations with $277 million of cash and investments, with stronger gift revenue and investment returns accounting for the rest.

Liquidity

The Federation maintains exceptional unrestricted monthly liquidity of $602 million, equating to 1,692 monthly days cash on hand and would cover Moody's classified demand debt a strong 5.8 times. Unfunded capital commitments in the endowment totaled $122 million at FYE 2014, up but representing less than 10% of the total portfolio and expected to be called over the medium- to long-term. JFMC's swaps have collateral posting requirements, but there were no collateral postings since restructuring its swap portfolio in 2012.

DEBT AND OTHER LIABILITIES: COMPLEX DEBT STRUCTURE AND CONTINGENT LIABILITIES

JFMC's good cushion of financial resources relative to debt mitigates high operating leverage and risks associated with guaranteeing debt for financially weaker organizations. FY 2014 expendable financial resources to pro forma debt of 4 times offsets the moderately high pro forma debt to revenue of 1.6 times in FY 2014. Of $280 million of pro-forma debt, approximately 92% is in the form of guarantees.

JFMC maintains comfortable headroom against its financial covenant under the Guarantee agreements to maintain a ratio of Unrestricted Liquid Assets to Total Debt (all secured indebtedness and contingent obligations) of 1.00 times reported on December 31 and June 30. The most recent calculation was 3.79 times. Failure to maintain this covenant is considered an event of default and could lead to acceleration of the guaranteed debt.

Debt Structure

Despite a complex debt structure, which consists of variable rate debt, financial covenants, and interest rate swap agreements, the growth in the Federation's financial reserves and liquidity relative to debt lessens some of the associated risks. Approximately 90% of total pro forma direct debt, which includes guarantees, has a variable interest rate.

Debt-Related Derivatives

JFMC has six interest rate swaps with three financial institutions for a total notional amount of $214 million expiring on various dates through 2041. JFMC is required to post collateral when the net present value of the swaps exceeds $26 million with JP Morgan and $17.5 million with Wells Fargo. As of June 30, 2014, the mark-to-market was a $21 million liability to JFMC.

Pensions and OPEB

JFMC has a low operating burden from retiree benefit plans. It offers a multi-employer defined benefit (DB) and defined contribution plans. The DB plan is relatively well funded at approximately 73% with plan assets of $75 million (compared to a benefit obligation of $103 million) at FYE 2013 (most recent available). JFMC's contribution to both plans was $522,000 for FY 2014, just 0.4% of total expenses. Effective July 1, 2012, the DB plan was amended to reduce future benefits by approximately one-third. The Federation does not provide post-retirement health (OPEB) coverage.

MANAGEMENT AND GOVERNANCE

The Federation's management of its debt guarantee program and the size of the program will remain a critical credit factor given the risk of guaranteeing debt for financially weaker institutions. JFMC has adequate processes in place to assess a project proposed by an affiliate before committing to a guarantee request. The policies and controls in place are indicative of sound management practices to mitigate the risks involved, but JFMC's history of balanced operations and liquid reserves available to cover debt are highly incorporated into the rating. The rating is sensitive to declines in the balance sheet cushion either through increased leverage or decline in investments.

KEY STATISTICS (FY 2014 audited financial data)

-Total Cash and Investments: $1.2 billion (Excludes funds invested on behalf of Unitholders and non-controlling interest in investments)

-Total Financial Resources: $1.4 billion

-Total Direct Debt (including contingent loan guarantees): $264 million (Pro forma Direct Debt: $280 million)

-Operating Revenue: $176 million

-Reliance on Gifts (% of Moody's-adjusted Operating Revenue): 73%

-Monthly Days Cash on Hand: 1,692 days

-Operating Cash Flow Margin: 27%

-Three-Year Average Debt Service Coverage: 59.6 times

OBLIGOR PROFILE

The Jewish Federation of Metropolitan Chicago (JFMC) is a nonprofit social service organization that makes grants to Jewish agencies and other beneficiaries primarily engaged in charitable, educational, social welfare and health activities.

LEGAL SECURITY

While we do not have an underlying rating assigned to any of JFMC's debt, all of its debt and debt guarantees are unsecured general obligations.

USE OF PROCEEDS

Not applicable.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Not-for-Profit Organizations (other than Healthcare and Education) published in March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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